Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Canadian Farm Income Program

Program Handbook

2002
Program Year

Canada
Government of Saskatchewan
Manitoba
New Brunswick Nouveau
Nova Scotia
Government of Newfoundland and Labrador

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Section 1.0 Introduction

This package provides detailed information on the guidelines and policies for the Canadian Farm Income Program (CFIP) for the 2002 program (taxation) year. It is strongly recommended that applicants review all sections of this Handbook that relate to their farming operation(s) to assist them in applying for CFIP. Specific instructions on how to complete the CFIP 2002 application can be found in the ***Guide to Completing the Application***.

For additional information, refer to:

- **the CFIP toll-free line at:**
  1-888-343-1064 (English)
  1-888-592-4314 (French)
- **the CFIP web site at:**
  http//www.agr.gc.ca/cfip (English)
  http//www.agr.gc.ca/pcra (French)

Note: The information in this handbook reflects the program details at the time of publication.

It is the applicant's responsibility to ensure that their CFIP application is submitted on time and in accordance with program guidelines, even if the application has been completed and/or submitted on their behalf by a third party.

The deadline for submitting completed CFIP 2002 Applications is **October 1, 2003.**

All applications must be postmarked no later than this date.

Mail your CFIP Application to:

CFIP
P.O. Box 1816 Station Main
Winnipeg, MB
R3C 3R1

Section 2.0 What is CFIP?

2.1 Purpose

The Canadian Farm Income Program (CFIP) is a whole farm financial assistance program for the 2000, 2001, and 2002 taxation years. The objective of CFIP is to provide short-term income support to eligible applicants who, due to circumstances beyond their control, have experienced a dramatic reduction in their 2002 farming income relative to previous years. The program provides support in addition to the core safety-net package of the Net Income Stabilization Account (NISA), crop insurance and provincial companion programs, and meets the criteria of Annex 2 Paragraph 7 of the World Trade Organization (WTO) Agreement on Agriculture.

The federal CFIP Administration delivers CFIP in the following provinces: Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. This package provides detailed CFIP information for applicants in those provinces. In other provinces, CFIP is delivered through existing administrations.

2.2 CFIP Coverage

Support under CFIP is determined on a "program margin" basis. A program margin represents the money that is available to a producer in a tax year after they have paid the cash operating costs on the farm. This is calculated as the difference between total allowable income and total allowable expenses (as defined by CFIP) in a tax year.

To measure the level of an applicant's income decline in the claim year, CFIP compares an applicant's "**claim year margin**" (the program margin in the 2002 taxation year) to a historical "**reference margin**" (an average of the applicant's program margins in prior years of farming activity).

Coverage under CFIP is provided at **70%** of an applicant's reference margin. In other words, when a producer's claim year margin has fallen below 70% of their reference margin, they may be eligible to receive CFIP support.

Section 3.0 Who is eligible to apply?

3.1 Farming Requirements

An applicant must meet all the following criteria in the 2002 claim year to be eligible to apply to CFIP:

1) They must have been actively farming in the province for which they apply;

2) They must have completed a minimum six consecutive months of farming activity; and,

3) A production cycle must have been completed.

Actively farming is defined as carrying out the physical work needed to produce and market agricultural commodities, including but not limited to machinery operation, maintenance and repairs; or participating in a wide variety of day-to-day management decisions required for the successful operation of a farming business, including but not limited to planting and harvesting, selecting crop rotations, spray schedules, rations for livestock, actions to deal with plant and livestock disease problems, maintenance schedules for machines, equipment and buildings, or the management of cash flow, taxation and financing.

A **production cycle** includes one or more of the following activities:

1) the growing and harvesting of a crop;

2) the process of rearing livestock;

3) the sale of purchased inventory in the case of feeding or finishing enterprises.

The production cycle requirement may be waived by CFIP if it could not be completed in the claim year as a direct result of a disaster.

3.2 Tax Information

In order to be eligible for CFIP, applicants must submit a completed CFIP application by the application deadline and must have reported net farming income or loss to Canada Customs and Revenue Agency (CCRA) for the 2002 tax year as one of the following:

3.2 Tax Information (cont'd)

1) An individual who carried on the business of farming in Canada as a sole proprietor or a partner and reported farming income earned in Canada on a T1 Income Tax and Benefit Return. A *separate* CFIP application reporting 100% of the partnership's income and expenses must be submitted by each partner who wishes to apply under the program. An estate may apply on behalf of a deceased individual based on the rules applicable to individual applicants.

2) A private corporation (including a co-operative) that carried on the business of farming in Canada and reported farming income earned in Canada on a T2 Corporation Income Tax Return (by way of corporate shareholders holding at least ten (10) percent of the common voting and/or non-voting shares of the entity, who actively farmed on behalf of the entity during the claim year). This calculation must be traced to individuals through any holding corporations to satisfy the minimum common shares and active participation requirements.

3) A trust or a communal organization that carried on the business of farming in Canada and that reported farming income on a T3 Trust Income Tax and Information Return.

A **Status Indian** who carried on the business of farming on a reserve in Canada and did not file a tax return, is eligible to apply providing they submit information they would have otherwise reported for tax purposes for claim and reference years based on the requirements of the *Income Tax Act*.

A **landlord** receiving crop share income is only eligible to the extent that the income received by the landlord results from sharing both price and yield risks with the tenant.

Research stations, universities, colleges, and other government funded organizations are not eligible for CFIP.

Applicants must also have reported farming income or loss to CCRA for each reference year in which they were actively farming. Applicants who were actively farming in a claim and/or reference year and who did not report farming income or loss to CCRA in those years must do so in order to have their CFIP application processed.

3.2 Tax Information (cont'd)

Applicants who have submitted their CFIP application by the deadline will have 90 days from the application deadline to file to CCRA for the missing year(s). Applicants are responsible for notifying CFIP once this has occurred.

3.3 Beginning Farmers

Applicants are eligible as beginning farmers if they meet the eligibility requirements listed in Section 3.1, and have not reported net farming income or loss to CCRA in one or more of the three years prior to the claim year (1999, 2000 and/or 2001).

CFIP will create margins for all missing or ineligible years based on the farm size and income and expense information of the year immediately following the missing year(s). CFIP will not create margins for any reference year in which the producer has reported net farming income or loss to CCRA and fulfilled the CFIP eligibility requirements.

Note: In cases where the lack of a production cycle is a normal and anticipated occurrence, as in the production of non-annual crops, CFIP will not create margins for missing reference years in which farming income or loss has been reported to CCRA. Margins for these years will be calculated using financial data submitted to CCRA.

Claim Year Margin: The claim year margin will be based on the information reported to CCRA, regardless of the length of the claim year, as long as the minimum 6 consecutive months of farming activity and production cycle criteria have been met. If the claim year is the applicant's first year of farming, CFIP will establish the missing reference years based on the size of the operation in the claim year.

Stub Periods: Where one of the reference years represents less than a full year of operation (a stub period), the applicant's program margin for that period will qualify as a reference year if the minimum 6 months of farming activity and the production cycle requirements are met within this period. The stub period will be prorated to reflect a 12 month period.

3.3 Beginning Farmers (cont'd)

If the applicant's stub period represents less than 6 months of farming activity, CFIP will create a program margin for the missing year(s). These margins will be created based on the size of the operation in the first eligible year. This also applies to applicants who may have ceased farming (did not complete a production cycle) in one of the reference years and resumed farming in a subsequent year.

Margin Options: Beginning farmers are not eligible to have their reference margin based on an 'Olympic average' (see Page 9). They must base their reference margin on the three years immediately prior to the claim year.

Beginning farmers are eligible to use the Modified Accrual Accounting Option (MAAO) (see Page 9). The first year used in the MAAO calculation will be the first eligible year in which net farming income or loss was reported to CCRA. The MAAO adjustment will be calculated on a three-year reference period basis, even if the number of eligible years is less than three.

Exclusions: The following are not considered beginning farmers for CFIP purposes:

- A newly formed corporation resulting from a rollover of a proprietorship, partnership, or joint venture into a corporation;
- The formation of a proprietorship, partnership, joint venture, corporation, or trust operating concurrently with a previously existing farming operation;
- A farming operation that has relocated from one physical location to another, and/or has changed the type or quantity of commodities sold, and has reported net farming income or loss to CCRA in each of the three reference years.

Notwithstanding the above examples, any newly created business venture will be eligible as a beginning farmer only to the extent that the owner is an eligible beginning farmer. This will help ensure that all expansions are treated equitably regardless of business structure.

3.4 Deceased Applicants

In the case of a deceased applicant, the filing of more than one income tax return may be involved. CFIP eligibility will be determined based on the final return for the period from January 1 of the year of death to the date of death. Any inventory, deferred income or accounts receivable, and accounts payable existing at the date of death shall be accrued to the final return. The applicant, beneficiary, or trust must have completed a minimum of 6 months of farming activity and a production cycle within this period. If, in addition to the final return, you file an optional return for the year of death for a deceased applicant (such as a return of rights and things), you must submit this information to CFIP.

If less than 12 months of income and expenses are reported in the claim year, they will be added to those from the preceding year. Accrual adjustments will be made over the combined period. A conversion factor will be applied to adjust the combined income and expenses to reflect a 12 month period. Applicants must report separate income/expense and accrual information for both the stub period and the 12 month period preceding it.

If a beneficiary's farming operation consists of all or substantially all of the deceased's farming operation, the beneficiary will be deemed to carry on the same farming operation as the deceased. If there is more than one beneficiary, a common business arrangement must be created to carry on the same farming operation as the deceased in order to retain the reference history.

3.5 Final Year of Farming

If the claim year is the final year of farming, the applicant will only be eligible for CFIP if a minimum of 6 months of farming activity has been completed and CFIP determines that the applicant has completed a production cycle within this period.

If less than 12 months of income and expenses are reported in the claim year, they will be added to those from the preceding year. Accrual adjustments will be made over the combined period. A conversion factor will be applied to adjust the combined income and expenses to reflect a 12 month period. Applicants must report separate income/expense and accrual information for both the stub period and the 12 month period preceding it.

3.6 Multi-jurisdiction Farms

The province of application for producers who live and farm in different provinces is the province of permanent establishment. Permanent establishment refers to the farmstead (not the residence). Therefore, if the producer lives and farms in different provinces, the producer would apply to the province of **main farmstead**. This is consistent with NISA/CCRA requirements for province of participation. Applicants may not apply to more than one province.

If the producer has farming income from more than one province, the producer will apply to the province in which the majority of farming income has been reported during the claim year.

3.7 Bankruptcy

Producers declaring bankruptcy are eligible for CFIP. In the case of bankruptcy, a trustee is assigned responsibility for all the assets and liabilities of the bankrupt party.

Depending on the time of bankruptcy, more than one CFIP application may be involved (i.e., one in the name of the producer up to the point of declaring bankruptcy, and a subsequent one from the trustee after the point of bankruptcy). To the extent that these applications represent substantially the same farming operation, they will be combined to reflect the "whole farm".

If a producer has declared bankruptcy before applying to CFIP, the CFIP application must include contact information for the trustee as well as instructions on how the trustee has decided to allocate any CFIP payment. CFIP will proceed according to instructions from the trustee. If a producer declares bankruptcy after applying to CFIP and before receiving a payment, it is the responsibility of the trustee to notify CFIP of any instructions regarding the allocation of the payment.

If the trustee has not contacted CFIP, but CFIP becomes aware of a bankruptcy, CFIP will contact the trustee and obtain, in writing, instructions for the allocation of any CFIP payment. If a bankruptcy situation is unknown to CFIP, regular processing guidelines will be followed.

CFIP payments are considered an asset of the bankrupt estate and should be treated as such.

Section 4.0 How does CFIP work?

4.1 Program Margins

A program margin is calculated as the difference between total allowable income and total allowable expenses (as defined by CFIP) in a tax year. CFIP compares an applicant's program margin in the claim year (2002) to their historical reference margin to measure the level of an applicant's income decline in the claim year.

The **claim year margin** is allowable income minus allowable expenses for the twelve months immediately prior to the applicant's 2002 fiscal year-end, adjusted for changes in inventory, accounts payable and receivable, and purchased inputs. These accrual adjustments are used to isolate the income situation in the claim year. Information for these accrual adjustments are provided by the applicant on Parts 4 to 6 of the CFIP application. A negative claim year margin will be deemed to be zero.

The **reference margin** is the greater of:

1) the average program margin over the three years immediately prior to the claim year, or;

2) the average program margin over three of the five years immediately prior to the claim year, where the highest and lowest margin years in the five year period are excluded (see Page 9 - Olympic average reference margin).

For fiscal periods of less than twelve months, income and expenses may be prorated to reflect the equivalent of a twelve month period.

4.2 Payment Calculation

The **support level** under CFIP is 70% of the reference margin. **Subject to program criteria, an applicant may be eligible to receive a CFIP payment when their claim year margin is less than the support level.**

For NISA participants, CFIP payments will be reduced by a NISA linkage equivalent to 3% of their Eligible Net Sales to avoid duplicate support payments. For calculation purposes, the NISA linkage is treated as allowable income in the claim year margin.

4.3 Sample Payment Calculation

Applicants should refer to their annual T1163 or T2042 Statement of Farming Activities or their annual income and expense statements for the financial information used in the calculation of their reference and claim year margins. The following sample calculation illustrates how a basic CFIP payment is calculated. It does not cover additional calculations required for situations such as structural change, multiple operations, or Olympic average reference margin. Applicants wishing to obtain more detailed calculation worksheets may do so by contacting CFIP.

A. Reference Margin and Support Level

Tax Year	Allowable Income	Allowable Expenses	Program Margin
1999	$120,000	$45,000	$75,000
2000	$55,000	$60,000	($5,000)
2001	$100,000	$50,000	$50,000
		Total =	$120,000
			÷ 3
		Reference Margin =	$40,000
			x 70%
		Support Level =	$28,000

B. Claim Year Margin and Estimated Payment

Tax Year	Allowable Income	Allowable Expenses	Program Margin
2002	$65,000	$55,000	$10,000

Add accrual adjustments from CFIP application:

Net change in purchased inputs	+	$1,000
Net change in accounts receivable	+	($5,000)
Net change in accounts payable	+	$4,500
Net change in crops inventory	+	($1,000)
Net change in livestock inventory	+	($3,500)
Claim Year Margin	=	$6,000
ESTIMATED CFIP PAYMENT* (Support Level - Claim Year Margin)	=	**$22,000**

* NISA participants will have their CFIP payment reduced by an amount equivalent to 3% of their claim year Eligible Net Sales (ENS - as calculated under the NISA program) to account for funding available through NISA.

4.4 Allowable and Non-Allowable Income and Expenses

CFIP generally excludes income and expenses related to capital and non-farm business items, as well as "like" program payments. Under international trade guidelines, only income from agriculture is eligible. Excluding certain expenses ensures the program does not influence farm business decisions, and minimizes capitalization into land and machinery values.

Refer to the lists below for examples of allowable and non-allowable income and expense items.

Allowable Income

- Commodity sales (crops and livestock)
- Contract work income (agricultural)
- Applicant's share of crop share income
- Acreage / permanent cover programs
- Crop damage payments
- FSAM payments
- GRIP payments
- GST input tax credit rebates (allowable expenses)
- Insurance proceeds (non-capital items)
- Patronage dividends
- Prize moneys
- Tripartite payments
- Western Grain Transition payments (renters)
- MFDAP payments (claim year only)
- CSAP & CMAP payments (claim year only)
- Canada-Saskatchewan unseeded acreage payments (producers who participate in crop insurance - all years; producers who do not participate in crop insurance - claim year only)

Non-Allowable Income

- Employment & off-farm business income
- Mandatory / Optional inventory adjustment
- Resales of commodities purchased
- Rebates for non-allowable expenses
- NISA withdrawals
- PFRA grants
- Freight Cost Pooling Assistance payments
- Recapture of capital cost allowance
- Rental income (machinery, buildings, land)
- Royalty income
- Sand, soil, gravel and water sales
- Aquaculture income
- AIDA/CFIP payments
- Western Grain Transition payments (landowners)
- MFDAP payments (reference years only)
- CSAP & CMAP payments (reference years only)
- Canada-Saskatchewan unseeded acreage payments (producers who do not participate in crop insurance - reference years only)

Allowable Expenses

- Commodity purchases (crops and livestock)
- Contract work (agricultural)
- All salaries
- Fertilizer, lime, minerals, salts, pesticides
- Commissions, advertising, marketing
- Freight and trucking costs (agricultural)
- Small tools, hardware
- Telephone, electricity, heating fuel
- Insurance premiums
- Machinery (repairs, licenses, insurance)
- Machinery (gas, diesel, oil)
- Office, legal and accounting fees
- Building and fence repairs
- Containers and twine
- Memberships / subscription fees

Non-Allowable Expenses

- Allowance on eligible capital property
- Mandatory / Optional inventory adjustment
- Clearing, leveling, and draining land (capital)
- Purchases of commodities resold
- Insurance program overpayment recapture (claim year only)
- Capital cost allowance
- Interest
- Life insurance premiums
- Rent (land, buildings, machinery, etc.)
- Terminal loss on disposition of depreciable property
- Tax / license fees for drainage & irrigation
- Property taxes
- Aquaculture expenses

Family Labour Expenses: Subject to verification criteria, all non-arm's length salaries (e.g., family labour) will be allowable and will therefore be included in the calculation of both reference and claim year margins. To be allowable, non-arm's length salaries must be at fair market value (i.e., the amount paid must be the same amount that would have been paid to an arm's length party). Any non-arm's length salaries paid above or below fair market value may be excluded, in whole or in part, from the margin calculations.

While both arm's length and non-arm's length salaries are considered allowable under CFIP, any salaries (including management fees and custom work) that are considered by CFIP to be unreasonably high in the claim year relative to the reference period will be adjusted to equal the average salaries in the reference period, unless a verifiable explanation is provided by the applicant. Amounts which are considered by CFIP to be unreasonable or unverifiable may be deemed non-allowable in their entirety. This ensures that program payments are directed to applicants who have experienced actual income declines beyond their control.

Crop Share Income: If you are a landlord and your rent is dependent on both crop yield and price, this income is considered allowable and will be included in the calculation of margins.

Crop Share Inventory: Inventory produced through a crop share agreement must be reported based on each applicant's percentage share. For example, if the land owner's share is 1/3, the land owner must report 1/3 of the total inventory produced through the crop share on their CFIP application. Similarly, the renter must report 2/3 of the total inventory produced through the crop share on their CFIP application. The seeded acres reported for the inventory should also correspond to the percentage of the crop share (e.g., a 1/3 share of 300 seeded acres should be reported as 100 seeded acres).

Cash Rent: Cash rent as income is non-allowable for CFIP. The cash rent received by land owners and reported as farming income is therefore excluded from the calculation of margins.

Livestock Share Rental Income: If you are the owner of the livestock, your share of the livestock income is allowable only to the extent that you share in the price and production risk of raising the livestock. If you do not share in the price and production risk of raising the livestock and only receive rental income generated through a livestock lease, this rental income is considered non-allowable income for program margin calculations. Therefore, income generated through livestock leases must be reported as other farming income on the net basis, regardless of accounting or tax reporting practices.

Custom Work: The distinction between providing custom services and working as an employee involves, but is not limited to, the following criteria:

1) *Risk* - whether the payee bears any risk of loss with respect to his or her activity and the extent to which the payee has an opportunity for profit.

2) *Financial Investment* - whether the payee has an ownership interest in the machinery and equipment used in providing the services or whether the payee is merely providing labour.

3) *Diversity* - whether the payee is providing similar services to other parties and is actively involved in searching out other business opportunities.

In general, if the payee does not supply capital, does not take any financial risks, has no liability, has formed a lasting relationship, and does not have the opportunity to render services to others, the payee is considered an employee for CFIP purposes. Employment income and expenses are non-allowable for CFIP and will be excluded from margin calculations.

Allowable and Non-Allowable Income and Expenses (cont'd)

Agricultural Custom Work: Common examples of agricultural custom work include custom seeding, combining and baling, and custom feeding of livestock. This income and the associated expenses incurred to generate the income are allowable as long as the agricultural custom work income is incidental to the eligible farm income reported to CCRA in any year.

To ensure that this income is incidental, CFIP will limit agricultural custom work income to 30% of the total allowable income (less the custom work itself). This will be calculated on the total claim, regardless of the number of operations, in each of the reference and claim years. Amounts in excess of 30% will be excluded from the calculation of reference and claim year margins. In addition, a 50% expense ratio will be assumed so that an amount equivalent to 50% of the total excluded income will be deducted from allowable expenses. If applicants feel that the 50% ratio is unreasonable for their farm, they must submit receipts with their CFIP application to substantiate a different expense ratio.

If custom work income is the only income reported, it is no longer incidental to the farming operation and will be considered non-allowable in its entirety. This does not apply to feedlot operations.

Custom Feedlot Operations: In order for income and expenses from a feedlot operation to be considered allowable, the feedlot operation must have made an appreciable contribution to the growth and maturity of the livestock. In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days, or gain an average of at least 90 kilograms. Custom feeding of livestock is exempt from the application of the 30% income cap. A custom feedlot operator may own all, some, or none of the animals and may grow or purchase the feed used in the operation.

Operations are not considered to have made a contribution to the growth and maturity of the livestock, and their income and expenses are therefore non-allowable, if they are:

1) acting as an agent or broker for the sale of livestock;
2) buying livestock for resale as quickly as a favourable opportunity presents itself, or;
3) assembling and preparing livestock for shipment.

Non-Agricultural Custom Work: This includes snow plowing, gravel hauling, contract welding, oilfield services, non-agricultural trucking, land clearing, logging, building, construction, etc. Income generated from these services is excluded from CFIP program margin calculations. In addition, a 50% expense ratio will be assumed so that an amount equivalent to 50% of the total excluded income will be deducted from allowable expenses. If applicants feel that the 50% ratio is unreasonable for their farm, they must submit receipts with their CFIP application to substantiate a different expense ratio.

Wood Sales: This income will be allowable up to a maximum of $1,000 per year for both reference and claim years to ensure that it remains incidental to the farming operation. Amounts in excess of $1,000 will be considered non-allowable for CFIP. In addition, a 10% expense ratio will be assumed so that an amount equivalent to 10% of the total excluded income will be deducted from allowable expenses.

Commodity Futures: CFIP will allow normal commodity transactions to be included as allowable farm income and expenses for CFIP margin calculations. The normal amount for a particular fiscal period will be based on the type and amount of quantities typically sold on an applicant's farm in a given year. Commodity transactions that are over and above the normal activity for that business will be treated as speculative in nature and, therefore, non-allowable for CFIP. Commodity or futures trading in a commodity not connected with the applicant's business would include a producer who is not a hog farmer but has transactions in hog futures.

4.5 Olympic Average

Applicants have two options upon which to base their reference margin:

1) the average program margin over the three years immediately prior to the claim year, or;

2) the average program margin over three of the five years immediately prior to the claim year, where the highest and lowest margin years in the five year period are excluded. This is referred to as the **Olympic average reference margin**.

Requirements: Applicants who wish to use an Olympic average reference margin must have reported farming income or loss to CCRA in each of the five years immediately prior to the claim year. This information must be made available to CFIP, either through NISA or by submission with the CFIP application. The Olympic average does not require the submission of supplementary forms.

If less than five reference years of information are available to CFIP when the application is submitted, the reference margin will be based on the average program margin over the three years immediately prior to the claim year. If all necessary information is made available, CFIP will calculate the applicant's reference margin using both options and use the greater of the two.

Applicants who were unable to complete a production cycle due to disaster circumstances (e.g., flood) are eligible to use the Olympic average. For applicants whose farming operations have undergone a significant structural change, CFIP will adjust their program margins in the reference period prior to determining which years will be used to calculate the Olympic average.

Restrictions: Beginning Farmers are not eligible to use the Olympic average option as they do not have five reference years of farming history. This also applies to applicants who may have ceased farming in one of the reference years (or voluntarily did not complete a production cycle) and then resumed farming in a subsequent year.

Adjustments: The submission of information required for the calculation of the Olympic average, after the submission of the original CFIP application, constitutes an adjustment to the CFIP application, and is therefore subject to the CFIP adjustment deadline (see Section 7.1 on Page 17).

4.6 MAAO

The **Modified Accrual Accounting Option (MAAO)** allows applicants to adjust their reference margin to account for changes in purchased inputs, crops and livestock inventory, accounts receivable and deferred income, and accounts payable over the 1999 to 2001 reference period.

Requirements: To substantiate their starting and ending inventories, accounts receivable and deferred income, and accounts payable for each of the reference years, applicants must submit either:

1) financial statements submitted to and accepted by a lending institution which detail the applicant's inventories, deferred income & accounts receivable, and accounts payable for each of the reference years, or;

2) completed production and usage records for each of the reference years (Schedules RA-3, RA-4, and RA-5 of the *Supplementary Schedules for the MAAO*).

Restrictions: Since the MAAO adjustment is based on the three years immediately prior to the 2002 claim year, it cannot be used in conjunction with the Olympic average option.

Applicants who have not used the same method of accounting for all three reference years and who wish to use MAAO will have their margins adjusted for MAAO only *after* they have converted back to a cash basis for all reference years.

Applicants whose farming operations have undergone a significant structural change will have their program margins in their reference period adjusted prior to applying the MAAO adjustment to their reference margin.

Applicants wishing to use the MAAO must complete and submit the *Supplementary Schedules for the Modified Accrual Accounting Option (MAAO)*, and all required supporting documentation, with their CFIP application on or before the application deadline. These schedules do not constitute an adjustment to the CFIP application, and will therefore not be accepted after the CFIP application deadline.

4.7 RAPC

The **Receivables Adjustment for Pooled Commodities (RAPC)**, applied in conjunction with the inventory accrual adjustment, allows producers who produce commodities marketed through a pool to adjust their claim year margin so that it reflects the approximate full value of their claim year production, and excludes income related to previous years' production. The RAPC accomplishes this by:

1) excluding income received in the claim year for crops produced in previous years, and;

2) including a projected amount relating to the future income that will be received for crops produced in the claim year.

Applicants wishing to use the RAPC must complete and submit the *Supplementary Schedules for the Receivables Adjustment for Pooled Commodities*, and all required supporting documentation, with their CFIP application on or before the application deadline. These schedules do not constitute an adjustment to the CFIP application, and will therefore not be accepted after the CFIP application deadline.

Applicants who do not submit the RAPC schedules will have all adjustment, interim, and final pool payments treated as income in the year they are received and reported to CCRA.

Note: Although the RAPC is optional, applicants who had the RAPC applied to their claim year margin in 2001 are required to use the RAPC if they apply to CFIP in 2002.

4.8 Structural Change

Structural change is a change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, or any other practice that may alter program margins.

Structural change determination: If CFIP determines that there has been a significant change in the farming operation's potential for profit, adjustments will be made to the reference year and/or claim year margins to reflect the change. Generally, CFIP will determine whether the farming operation has undergone a significant structural change based upon the historic acreage and/or herd information reported on the CFIP 2002 application. CFIP will calculate the average size of the operation over the reference period and compare it to the size in the claim year. If the operation has significantly increased or decreased its potential for profit, CFIP will use standard per unit commodity margins to adjust the reference margins to more accurately reflect the size of the operation in the claim year.

Structural Change Adjustment:

1) Using per unit commodity margins for each year, a standardized program margin for each reference year will be created based on the actual size of the operation in that reference year.

2) Using per unit commodity margins for each year, a standardized program margin for each reference year will be created based on the size of the operation in the claim year.

3) The two standardized program margins (as determined above) for each reference year will be compared to determine the percentage difference between the two. Differences of up to 15% will be waived to account for 'normal fluctuation'.

4) Amounts in excess of 15% between the margins will be multiplied against the actual program margin for that year to arrive at an adjusted program margin for that reference year.

Structural Change Cap: For expanding farm calculations, individual reference year margins will be capped based on the greater of:

1) the actual program margin for that year; or,

2) the standardized program margin for that year calculated on the farm size in the claim year.

Structural Change and Disaster Circumstances: The structural change adjustment may be waived if, in the opinion of CFIP, the structural change was as a result of disaster circumstances. Examples of disaster circumstances that warrant the waiving of structural change adjustments include flooding or drought. Moreover, for the purposes of calculating structural change adjustments, acres that an applicant was unable to seed due to disaster circumstances may be included in the calculation of total seeded acres when determining the applicant's productive capacity. These situations, and those involving changes to livestock operations, will be dealt with on a case-by-case basis to ensure that all relevant factors affecting production in the claim year are considered.

CFIP may apply alternate methods of calculating structural changes for anomalous cases where the standard method does not accurately reflect the structural change. This is necessary to ensure that the reference margin reflects the farming operation in the claim year.

Structural Change and Olympic Average: If five years of reference data are available, CFIP will apply any structural change adjustments to the reference years prior to removing the highest and lowest margin years.

Note: Structural changes made for the purposes of maximizing or receiving a payment will not be recognized by CFIP. The onus is on the applicant to establish that changes have been done for sound business reasons.

4.9 Non-Arm's Length Transactions

A **non-arm's length transaction** means a transaction (including custom work) involving two or more individuals or entities who are considered to be related persons. Two or more individuals are deemed to be related persons if:

1) one is the child or descendant of the other;

2) they are brothers or sisters;

3) they are married to each other, or common-law;

4) one is married to a person who is connected to the person as described in (1) or (2) above;or

5) one has been adopted by the other, or by some person connected to the other as described above.

Applicants are dealing at non-arm's length with a corporation if they control the corporation, or deal at non-arm's length with persons who control the corporation. It is a question of fact whether persons not related to each other were at a particular time dealing with each other at non-arm's length.

Transactions between non-arm's length parties must be at fair market value to be considered allowable for inclusion in the calculation of margins. Transactions above or below fair market value may be excluded, in whole or in part, from the margin calculations. For CFIP purposes, management fees are considered non-arm's length salaries when paid to shareholders.

Combining Operations: The income and expense information of two or more farming operations may be combined if, in the opinion of CFIP, they are:

1) operating at non-arm's length, and/or;

2) are part of a whole farm that reports operations separately to CCRA.

For purposes of determining CFIP eligibility, CFIP will combine the income and expenses of two or more operations if any of the following occurs:

1) If an operation has significant non-arm's length transactions with another person or entity. An operation's non-arm's length transactions are deemed to be significant if 20% of either operation's gross income or total expense transactions are between non-arm's length parties. This applies to all non-arm's length transactions regardless of whether they occur at, above, or below fair market value.

2) If the operation shares resources such as land, equipment, inventory and/or labour with another person(s) or entity on the same farm base. Exceptions would include a parent and child or siblings who maintain separate farms, but share equipment.

3) If the applicant holds 10% or more of the common voting or non-voting shares in another entity.

The combining of operations to determine CFIP eligibility is necessary under the "whole farm" approach. This approach ensures that financial accounting procedures do not trigger a CFIP payment. Each CFIP applicant must report:

1) all expenses associated with earning the income reported in each of the reference years and claim year, and;

2) all income associated with the expenses reported in each of the reference years and claim year.

For example, an operation that has reported grain income but shows only a portion of the normal expenses relating to a grain operation (in either a reference year or a claim year) would not be eligible for a CFIP claim unless the operation that reported the associated expenses is combined with the operation reporting the income.

Payments to Combined Operations: When determining how to divide CFIP payments that have been calculated based on combined applications, CFIP payments will be made based on each applicant's share of the combined CFIP support level.

Section 5.0 How do you apply for CFIP?

5.1 Application Requirements

Applicants must submit their completed CFIP 2002 application, along with all supporting documentation, to CFIP on or before the application deadline of **October 1, 2003**. If any of the information or attachments are missing or incomplete, the application will be returned to the applicant. It is the applicant's responsibility, even if a third party completes an application on their behalf, to ensure that their completed application has been submitted to and received by CFIP prior to the application deadline. Applications will not be considered to be received by the deadline unless all of the required information and documentation has been provided.

Individuals applying for CFIP must provide their Social Insurance Number (SIN).

Partners in a partnership must each file a separate CFIP application, each reporting 100% of the partnership's income and expense information. CFIP will calculate payments based on each partner's percentage share of the operation.

Corporations, co-operatives and communal organizations must apply as entities. CFIP payments will be made directly to the entity, unless the entity's application has been combined with another application. Entities must provide their Business Numbers and/or Taxation Numbers used for income tax purposes. Entities must also provide the SINs of each corporate shareholder or co-operative member holding at least ten (10) percent of the common voting and/or non-voting shares of the entity, who actively farmed on behalf of the entity during the claim year.

Multiple Operations: Applicants involved in more than one farming operation, as a sole proprietor or in a partnership or corporation, must submit an application for each operation.

Submit completed CFIP applications to:

CFIP
P.O. Box 1816 Station Main
Winnipeg, MB
R3C 3R1

5.2 Tax Information

Applicants who participate in NISA: CFIP will access their income and expense information for the claim and reference years through NISA.

Applicants who do not participate in NISA: In addition to completing the *Supplementary Schedules for Non-NISA Applicants*, applicants who do not participate in NISA must submit copies of their Statement of Farming Activities as filed to CCRA for each of the claim and reference years with their application. Applicants who submitted copies of their Statement of Farming Activities for any reference years through a previous AIDA or CFIP application are not required to submit this information again with their CFIP 2002 application.

By submitting an application, all applicants agree to provide all books and records, explanations, and access to third parties deemed necessary by CFIP to verify the applicant's information. CFIP may make information obtained through verification of an application available to CCRA and NISA. If any changes are made to information used in the calculation of a CFIP payment, applicants must immediately notify CFIP in writing.

Personal information is protected under the Privacy Act and is stored in the Personal Information Bank AAFC PPU 304. Information is protected from disclosure under Section 20 of the Access to Information Act. Some information may be accessible under the Access to Information Act.

5.3 Basis of Accounting

Claim year margin: An applicant's claim year margin will be determined based on the method of accounting that was used to report their claim year tax information to CCRA. If the applicant files to CCRA on the cash basis, the claim year margin will be adjusted for changes in purchased inputs, inventories, deferred income and receivables, and accounts payable.

Reference margin for applicants who do not participate in NISA: To determine the reference margin, CFIP will use the basis of accounting that the applicant used to report to CCRA during the reference period. CFIP will use the accrual basis of accounting to determine an applicant's reference margin only if they reported to CCRA on the accrual basis for all reference years. Applicants who reported one or more years to CCRA on the cash basis must convert all their reference years to the cash basis, and CFIP will calculate their reference margin on the cash basis. CFIP has developed an accrual to cash conversion worksheet, which can be downloaded from the CFIP website or obtained by contacting CFIP.

Reference margin for applicants who participate in NISA: To determine the reference margin, CFIP will use the basis of accounting that the applicant used to file to NISA during the reference period. CFIP will use the accrual basis of accounting to determine an applicant's reference margin only if the applicant filed to NISA on the accrual basis for all reference years. Applicants who filed one or more years to NISA on the cash basis must convert all their reference years to the cash basis, and will have their reference margin calculated on the cash basis. CFIP has developed an accrual to cash conversion worksheet, which can be downloaded from the CFIP website or obtained by contacting CFIP.

Changes to Method of Accounting: If an applicant has changed their method of accounting from cash to accrual for CCRA or NISA purposes within the reference period or claim year, they must notify CFIP in writing that this change has occurred. The following documents (for the claim and reference years) must also be submitted with the application:

5.3 Basis of Accounting (cont'd)

1) Completed accrual to cash worksheets;
2) Full financial statements (including notes);
3) Working papers for accounts receivable, accounts payable, and inventories; and,
4) Reconciliation of Net Income for Tax Purposes or T2S(1).

5.4 Prescribed Drought Regions

Producers located in a Prescribed Drought Region (PDR) may have been able to defer the applicable income from the sale of breeding animals in 2002 to a later fiscal period for CCRA income tax purposes. Any livestock sales income deferred under CCRA guidelines on the grounds of residency in a PDR will be treated as an ending receivable by CFIP. In situations where such sales result in a structural change to an operation, CFIP may waive the structural change margin adjustments.

Section 6.0 Payments

6.1 Payment Restrictions

Payments under CFIP will only be made if an applicant meets the terms and conditions of the Federal-Provincial Agreements that govern CFIP and any guidelines authorized by those agreements. Subject to these program criteria, payments will be made when an applicant's claim year program margin is less than 70% of their reference margin.

No individual, either as a sole proprietor or as a shareholder, may receive more than $175,000 in total payments in a claim year, regardless of the number of farming businesses in which the individual is involved.

- **For individuals:** the maximum CFIP payment is $175,000 ($145,000 in SK and MB).
- **For corporations and co-operatives:** the maximum CFIP payment is $175,000 ($145,000 in SK and MB) times the number of eligible shareholders to a maximum of five shareholders.
- **For communal organizations:** the maximum CFIP payment is $875,000 ($725,000 in SK and MB).
- **Trusts (testamentary/inter vivos):** will be treated as individuals in calculating maximum CFIP payments.

Note: Payments of less than $10.00 will not be issued.

6.2 NISA Linkage

To eliminate duplicate support payments, CFIP payments will be reduced by an amount equivalent to 3% of an applicant's claim year Eligible Net Sales (ENS) to account for government contributions available through NISA. This deduction applies only to those applicants who participate in NISA. For calculation purposes, the NISA linkage is treated as allowable income in the claim year margin.

6.3 CFIP Interim Payments

Applicants who received an interim CFIP 2002 payment must file a final CFIP 2002 application, and will have their final CFIP 2002 payment reduced by any amount that they received through an interim payment. Applicants will be required to repay to CFIP any amount they received through an interim payment that is in excess of the amount of the applicant's final CFIP 2002 claim.

6.4 Overpayments

Applicants will be required to repay to CFIP any payments received under the program that are in excess of the amounts permitted under the guidelines of the program. Applicants will be charged interest on overpayments from the date of the original payment. If the overpayment is a result of an administrative error, interest will be charged 30 days after the date that notification of overpayment is issued. The interest rate used is the 90 day federal Treasury Bill rate plus two percent per annum, adjusted quarterly.

Debts owing by the applicant to the federal and provincial governments may be recovered from amounts payable to the applicant under CFIP.

6.5 Assignments and Deferrals

CFIP payments are considered income for income tax purposes. CFIP payments cannot be assigned, deferred (for tax purposes), or otherwise encumbered. An applicant may not assign or grant an interest in any money payable under this program.

6.6 Proration

CFIP payments will be prorated, if required, to ensure that total payments made under CFIP do not exceed the amount allocated for the program by federal and provincial governments.

6.7 Audit & Accuracy of Information

Applicants may be subject to audit on a pre- or post- payment basis by CFIP. Any information obtained through audit or inspection may be made available by CFIP to CCRA and NISA.

An applicant who provides false or misleading information will be denied a payment for the claim, and will be required to repay any payment received. It is a criminal offence to obtain money through wilfully or intentionally providing false information. If the applicant provides any false information or makes a false statement in the application or declaration, or provides incomplete or misleading information, the applicant may be liable for a fine or imprisonment, or both.

If audit or inspection results in a change to the amount an applicant is entitled to under the CFIP guidelines, any additional amount will be paid to the applicant and any overpayment will be repayable by the applicant.

If an applicant fails to provide the required information or access to books and records, the applicant will be denied all or part of the payment for the claim year or will be required to repay any payment received.

It is the applicant's responsibility to ensure that information supplied to CCRA and CFIP is correct and complete. Applicants must inform CFIP of any changes or corrections to information supplied to CCRA or CFIP.

CFIP will not be responsible for notifying applicants of incorrect tax reporting. CFIP may adjust tax information as necessary for the purposes of calculating program margins, but CFIP cannot make corrections to tax information with CCRA. Applicants may be notified in writing that a correction with CCRA is required in order for their CFIP application to be processed. In this case, the applicant must make the correction with CCRA and notify CFIP within 30 days, or by the application deadline (whichever is later).

Section 7.0 Adjustments and Reviews

7.1 Adjustments

Adjustments may be made to any information on the CFIP application form by submitting a written request to CFIP within 60 days of the mailing date indicated on the **Confirmation of Assessment Notice** (notice of CFIP assessment).

Changes to CCRA/NISA Information: Adjustments may be made to any information reported to CCRA/NISA by filing an adjustment with CCRA. Copies of the Notice of Reassessment issued by CCRA, or notifications of revisions to CCRA affecting the applicant's CFIP claim, must be submitted to CFIP immediately.

Adjustments to CFIP claims (resulting from changes to CCRA information only) will be accepted for up to three years from the date of your original CCRA Notice of Assessment (e.g., an applicant who received their CCRA 1999 Notice of Assessment on July 31, 2000 would have until July 31, 2003 to request an adjustment based on their 1999 assessment). If a claim was not accepted because of non-compliance with the appropriate application deadline, an adjustment will not be made.

All adjustments require supporting documentation and are subject to verification, audit and/or inspection by CFIP. If verification, audit, or inspection results in a change to the amount an applicant is entitled to under the CFIP guidelines, any additional amount will be paid to the applicant and any overpayment will be repayable by the applicant.

CFIP will not be bound by deadlines in cases of adjustments resulting in the decrease of a CFIP payment, or the discovery that false or misleading information has been provided by the applicant.

7.2 Reviews

CFIP applicants who feel that CFIP program rules were not correctly applied in the verification of their applications may request a review of their application. The review process is a two-stage process:

1) CFIP Review Officers perform an internal administrative review, independent from the verification process. If program policies and guidelines have not been correctly applied, they will make adjustments to the file. If program policies and guidelines have been correctly applied, they will confirm the verification.

2) If the applicant still feels the CFIP program rules were not correctly applied after the internal administrative review, the case will be referred to the Producer Review Committee.

Producer Review Committees that are independent of CFIP have been established in each province. Each committee consists of residents of the respective province who are associated with the farming industry. They deal with each review by recommending to CFIP whether the original decision rendered by the administration should be upheld, modified, or reversed. The administration reviews the recommendation to ensure it complies with program guidelines before accepting the committee's recommendation.

Note: Both the CFIP Review Officers and the Producer Review Committees cannot make exceptions to any program rules or procedures, agreements, or legislation governing CFIP.

For cases referred to the Producer Review Committee, the administration will prepare a document outlining the applicable authorities and how program rules were applied. This document is provided to the applicant and/or their representative for comment prior to the committee meeting. Both the applicant's and CFIP's documentation are provided to the committee. Identifying information is removed from all material referred to the committee to ensure the applicant's anonymity and an impartial, objective review of the facts of the case.

Before a review request is filed, applicants should speak to the CFIP enquiry staff and/or the applicable Verification Officer if they have any questions regarding the verification of their application.

Applicant Requirements: In requesting a review of their application, applicants must:

1) submit their review request in writing within 60 days from the mailing date of the Confirmation of Assessment Notice (CON) or notification regarding an adjustment request;
2) identify in their review request the program guidelines they feel have not been correctly applied in the verification of their application, and raise all issues to be considered in the review;
3) restrict their review request to the terms and conditions set out in the Federal-Provincial Agreement establishing CFIP and the published program guidelines and how the CFIP Administration interpreted and applied the guidelines to their application;
4) specify in their review request the remedy being sought within the Federal-Provincial Agreement establishing CFIP and the published program guidelines;
5) after the CFIP Administration's internal review of their application, advise CFIP in writing within the specified time period if they wish to have CFIP's decision reviewed by the Producer Review Committee;
6) where an adjustment has been made to an application more than 60 days from the mailing date of the CON for the initial verification, limit their review request to issues related to that adjustment;
7) where CFIP has determined that a file was received after the application deadline, demonstrate the steps they took to ensure the application was received on time by CFIP; this includes applications prepared by a representative of the applicant.

Upon completion of its review, the Committee will either uphold the initial processing of the application, or make a recommendation to CFIP for reprocessing. CFIP will not be bound by the Committee's recommendations if they are inconsistent with program rules, procedures, agreements or legislation governing CFIP.

Written requests should be submitted to:

Producer Review Committee
P.O. Box 1816 Station Main
Winnipeg, MB
R3C 3R1

Review requests are processed on a first-in, first-out basis. A Producer Review Officer will contact the applicant when their review request is being processed.

Section 8.0 Index

Agriculture and Agri-Food Canada / Agriculture et Agroalimentaire Canada

CFIP, P.O. Box 1816 Station Main, Winnipeg, MB R3C 3R1